SANMAR

Chemplast Sanmar Limited

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www.chemplastsanmar.com
CIN L24230TN1985PLC011637

25th February 2022

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code - 543336	National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Mumbai – 400 050 Scrip Symbol - CHEMPLASTS

Subject: Notification under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Ratings

Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we would like to inform you that Brickwork Ratings have upgraded the ratings for both Chemplast Sanmar Limited and its wholly-owned subsidiary, Chemplast Cuddalore Vinyls Limited. The details are as mentioned below:

1) **Chemplast Sanmar Limited**: Ratings upgraded with a revision in outlook for the enhanced Bank Loan Facilities of Rs. 700.00 Crores and ratings withdrawn for the Non-Convertible Debentures on its full redemption post-IPO.

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	BWR A+/Positive	Upgraded with Revision of Outlook to Positive
2	Short Term - Bank Facilities (Non-Fund Based)	BWR A1+	Upgraded
3	Long Term - NCDs	Withdrawn on full redemption	Fully redeemed post-IPO

2) **Chemplast Cuddalore Vinyls Limited**: Ratings upgraded with a revision in outlook for the enhanced Bank Loan Facilities of Rs. 2550.00 Crores

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	BWR A+/Positive	Upgraded with Revision of Outlook to Positive
2	Short Term - Bank Facilities (Non-Fund Based)	BWR A1+	Upgraded

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CHEMPLAST SANMAR LIMITED CHENNAI 600 086

This is for your information and records.

The letters dated 24th February 2022 received from Brickwork Ratings India Pvt. Ltd. are enclosed herewith

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

M RAMAN
Company Secretary and Compliance Officer
Memb No. ACS 6248

CHEMPLAST SANMAR LIMITED
CHENNAI
600 086

Rating Rationale

24 February 2022

CHEMPLAST SANMAR LIMITED

Brickwork Ratings withdraws the ratings for the redeemed Non-Convertible Debentures (NCDs) and upgrades the ratings with a revision in outlook for the enhanced Bank Loan Facilities of Rs.700.00 Crores of Chemplast Sanmar Limited

Particulars:

a) NCDs

Instrument@	Amount (Rs. Crs)		Tenure	Rating[1]	
	Previous	Present		Previous (05 Aug 2021)	Present rating
NCD	1238.25	**Nil**	Long Term	**BWR A/Stable** Reaffirmed with Revision of Outlook to Stable	**Withdrawn on full redemption**
Total	**1238.25**	**Nil**	**Nil**		

@Annexure I shows the details of the NCDs

b) Bank Loan Facilities

Facilities#	Amount (Rs. Crs)		Tenure	Rating[1]	
	Previous	Present		Previous (05 Aug 2021)	Present rating
Fund based (Sublimit to Non fund based facility) WCDL Cash Credit Packing Credit Cash Credit- Proposed	 (50.00) (21.00) - (50.00)	 **(60.00)** **(26.00)** **(50.00)** **-**	Long term	BWR A/Stable Reaffirmed with Revision of Outlook to Stable	**BWR A+/Positive** **Upgraded with Revision of Outlook to Positive**
Non Fund based LC/BG/SBLC LC/BG/ SBLC- Proposed	 100.00 100.00	 **160.00** **540.00**	Short term	BWR A1 Reaffirmed	**BWR A1+** **Upgraded**
Total	**200.00**	**700.00**	**Rupees Seven Hundred Crores Only**		

#Annexure II shows the details of bank loan facilities

[1] Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Rating Action/Outlook

The rating upgradation of the bank loan facilities of Chemplast Sanmar Limited (CSL or the company) reflects the sustained improvement in the company's business profile, supported by its improved performance during FY21 and a sustained improved year-to-date performance in 9MFY22, along with an improvement in the capital structure and liquidity position.

The company's total revenue of Rs.4085.04 Crs in 9MFY22, on a consolidated basis (including the wholly-owned subsidiary Chemplast Cuddalore Vinyl Ltd (CCVL); rated BWR A+/Positive/A1+), surpassed the full-year FY21 figure of Rs.3798.73 Crs. This growth has been backed by improved realisation, along with volume growth for most of the key products on a YoY basis in 9MFY22 at the consolidated level. The standalone revenue of CSL registered ~56% growth YoY, during 9MFY22. Backed by improved realisation and a reduced interest cost, the margins have surpassed the pre-Covid levels.

BWR also notes that with the early redemption of the Non-Convertible Debentures (NCDs), the company has turned almost debt free on a standalone level basis with no long term debt. On the other hand, the networth has improved, pursuant to the listing of shares and by way of profit retention. As such, the company's gearing, liquidity and debt protection metrics were comfortable, with an improvement on a YoY basis.

Furthermore, the ratings continue to be supported by the strong brand equity of Sanmar Group, experienced and professional management, established track record and integrated operations, along with the company's dominant market position in the chemicals industry. The ratings factor in the vulnerability to fluctuations in the prices of key raw materials and finished products and forex risks.

The company was listed on the stock exchanges on 24 August 2021, and the company raised Rs.3850 Crs through an IPO, which included a fresh issuance of Rs.1300 Crs and Offer For Sale (OFS) by promoter holding company of Rs.2550 Crs. Brickwork Ratings (BWR) notes that CSL had redeemed the entire outstanding NCDs of Rs.1238.25 Crs on 31 Aug 2021 using the net proceeds of the IPO. BWR has withdrawn the rating assigned to the NCDs aggregating Rs.1238.25 Crs issued based on the company's request in view of the redemption of the said NCDs, confirmation and NOC received from the Debenture Trustee and investors. Hence, in line with the extant regulatory guidelines and BWR Rating Withdrawal Policy, the rating has been withdrawn upon full redemption.

The revision in outlook on CSL factors in the Positive outlook for the PVC and caustic soda industry in India, coupled with significant growth opportunities for domestic players arising from the favourable demand-supply dynamics in the medium term. BWR also notes the company's plans to capitalise on these opportunities by way of capacity addition in a phased manner.

The outlook may be revised downwards in the case of a deterioration in the operating performance or business profile, more-than-envisaged debt raising for capex or other needs or an unexpected stretch in the working capital cycle, thereby adversely affecting the company's debt metrics and credit risk profile.

Key rating drivers

Credit Strengths-:

■ **Reputed Sanmar Group and experienced management:** Started in 1962, the Chennai-based Sanmar group has global partnerships in a range of industry segments. The group is reported to be one of the large South Indian conglomerates having revenues of more than USD 1 billion and an asset base of more than USD 2 billion, in all its businesses such as chemicals, engineering technologies and shipping. The group is fourth-generation-family-owned and professionally managed. The group has operations in the US, Mexico and Egypt, apart from its significant presence in the southern part of India. The senior management team has been associated with the group for over two decades.

■ **Locational advantages and fully integrated nature of manufacturing plants:** The strategically selected location of the Southern and Eastern markets helps in maintaining low operating costs, freight costs, energy costs and labour costs. CSL is a fully integrated facility with an established track record of feedstock management through its own salt farms (for making chlorine) at Vedaranyam, an Ethylene Dichloride (EDC) plant (for making Vinyl Chloride Monomer (VCM)) at Karaikal and the effective management of the import of EDC and methanol, among others. CSL also has its own captive power plant to meet its requirements. Furthermore, CSL has its own dedicated marine terminal facility at Karaikal for the import of ethylene (used in EDC manufacturing). The group through CCVL has developed a long-standing relationship with Mitsubishi, the main supplier of VCM (key raw material for suspension PVC), to ensure continuity in supply as VCM can only be transported in specialised cargo ships at sub-zero temperatures. CCVL also efficiently facilitates the transportation of VCM from its own marine terminal facility to the plant via underwater/ground pipelines.

■ **Industry position, market share and capacity addition plans:** Chennai-based Sanmar Group is reputed and has established a dominant position in niche chemical products. CSL is reported to be the largest paste PVC manufacturer in India with a >50% market share and strong customer base. CSL is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide, both in South India, and one of the oldest manufacturers in the chloromethanes market in India. CSL's wholly owned subsidiary CCVL is now the second largest SPVC manufacturer in India. Demand for paste PVC in the country is robust and is expected to grow between 5%-7% p.a in the next few years, on account of growth in its diverse end-use segments, more particularly the artificial leather industry. The SPVC business possesses significant growth potential, and demand is expected to register 8%-9% growth as per industry reports. India is reported to be currently importing around 45%-50% of the paste PVC and around 55% of SPVC demand, with no further capacity addition being planned by competitors. Additionally, due to high entry barriers, no new PVC plant has been established in the last several years. Government initiatives to curtail imports are also aiding the domestic players. To tap business opportunities, the company plans to undertake a phased CAPEX of around Rs.600-700 Crs spread over the next 3 years. The company plans to debottleneck the suspension

PVC capacity by 31 Kilo tonne per annum (Ktpa) in the next few months at a CAPEX of ~Rs.23.50 Crs. The recent paring off of debt in the balance sheet on a standalone basis and the boost to the liquidity is expected to generate adequate free cash flow, which can support the company's CAPEX plans and further strengthen its leadership position in the market.

■ **Comfortable financial risk profile:** The company's overall financial profile continues to be improved, as marked by the improvement in the year to date performance post a stable FY21. The financial profile is also supported by the sustenance of margins and reduction in the debt post the redemption of high-cost NCDs. On a consolidated basis, the company achieved total operating revenue of Rs.4085.04 Crs in 9MFY22 surpassing the full-year FY21 revenue of Rs.3798.73 Crs. The EBITDA and PAT were Rs.850.35 Crs and Rs.417.02 Crs, respectively, in 9MFY22. The company achieved standalone revenue of Rs.1363.51 Crs during 9MFY22 against Rs.875.15 Crs in 9MFY21, registering ~56% growth YoY. The EBITDA and PAT for 9MFY22 were Rs.436.81 Crs and Rs.231.36 Crs, respectively, at a standalone level, against an EBITDA of Rs.247.82 Crs and a net loss of Rs.15.22 Crs for 9MFY21. With the early redemption of NCDs, CSL's standalone long term debt has reduced to nil. On the other hand, the TNW has improved pursuant to the listing of shares. As such, the company's gearing ratio is almost nil and debt protection metrics are comfortable. CSL's consolidated net worth turned negative due to the acquisition of a 100% stake in CCVL, which had a negative net worth primarily on account of accounting treatment and not due to any operational losses.

Credit Challenges-:

■ **Price volatility and availability of key raw materials:** The prices of key raw material EDC are volatile. However, CSL has developed long-standing relations with its suppliers, which checks the price volatility to an extent and ensures continuity in supply. CSL also has the capability to meet a significant part of its EDC requirement by manufacturing it in-house, using imported ethylene and chlorine produced in caustic soda operations. The key raw material VCM for SPVC production is not manufactured in India and can only be imported. CCVL has developed a long-standing relation with Mitsubishi, the main supplier of VCM, which ensures continuity in supply. Although the volatility in the PVC-VCM spread impacts the company's EBITDA margins, the company, using a combination of measures, has been able to maintain the PVC-VCM spread profitably.

■ **Exposure to forex fluctuations:** Profitability is exposed to forex fluctuations as some key raw materials are imported. However, forex risk is managed through the hedging policy of covering all the high-value forex exposures. Furthermore, the pricing of the end product, specialty paste PVC and SPVC, is also done on an import parity basis, thereby providing a natural hedge for imports.

■ **Operational disruptions in plants:** As with most chemical plants, the company is exposed to operational risks pertaining to unexpected operational disruptions in manufacturing plants, including the unavailability of key raw materials. However, with its long experience in this industry, and with the employment of preventive maintenance practises, the company is well-positioned to manage its operational risks.

Analytical approach - Consolidated
CCVL became a wholly owned subsidiary of the company pursuant to CCVL's acquisition on 31 March 2021, and the company started preparing the Consolidated Financial Statements wef 31 March 2021. The ratings assigned by BWR are based on the company's consolidated financial profile, duly applying the rating methodology as detailed in the Rating Criteria provided at the end of this rationale. Please refer to Annexure – III for the list of entities consolidated.

Rating sensitivities:
The company's ability to ensure the efficient utilisation of the installed capacities, sustain and improve its operational and financial performance, strengthen its overall credit profile and manage its working capital efficiently would remain key rating sensitivities. The timely completion of the planned capacity addition and debottlenecking in CCVL will be a key monitorable.

Positive
- Sustained improvement in revenue with a significant increase in share from non-PVC segment, resulting in diversification and an improvement in the profitability margins
- Reduction in debt levels, improvement in capital structure and overall strengthening of financial risk profile

Negative
- More-than-expected debt because of capital expenditure, leading to a deterioration in debt protection metrics and liquidity
- Specific credit metrics that may result in a downward rating action include the EBITDA margins deteriorating to below 12%-13% on a sustained basis

Liquidity - Strong: The company's liquidity position improved substantially in FY21 and 9MFY22 on a YoY basis, backed by the early redemption of outstanding NCDs of Rs.1238.25 Crs using the IPO proceeds, improved performance and margins. The EBITDA of ~Rs.961 Crs and ~Rs.850 Crs for FY21 and 9MFY22, respectively, comfortably cover the interest and finance charges of ~Rs.433 Crs and ~Rs.287 Crs, respectively, for the same period, at the consolidated level. CSL's cash and cash equivalents were healthy at ~Rs.292 Crs as of 31 December 2021 against ~Rs.149 Crs as of 31 March 2021. At the consolidated level, the cash and cash equivalents were ~Rs.855 Crs as of 31 December 2021. The average working capital utilisation (mainly non-fund-based facilities) was at ~85%-90% for the last 12 months. The company is in a comfortable position to meet its financial commitments in the medium term, both at the standalone and consolidated levels. Projected cash accruals are expected to be comfortably meeting the scheduled debt repayment obligation of ~Rs.70-80 Crs each in FY22 and FY23.

About the Company

Incorporated in 1962, **Chemplast Sanmar Limited (CSL)**, the flagship company of Sanmar Group, is a major manufacturer of paste PVC resins, caustic soda, chlorochemicals, refrigerant gas and industrial salt. The manufacturing facilities are located at Mettur, Panruti, Cuddalore and Vedaranyam in Tamil Nadu, and Karaikal in Puducherry. The company has a paste PVC plant located at Mettur having a capacity of 66 Ktpa, and the caustic soda plants in Karaikal and Mettur have a capacity of 52 Ktpa and 67 Ktpa, respectively. The chloromethane plant is in Mettur and has a capacity of 35 Ktpa. A downstream EDC plant of 84 Ktpa capacity, which captively utilises chlorine from the chlor-alkali plant at Karaikal, has also been set-up. This plant includes a marine terminal facility for the import of liquid ethylene. The salt needed for chlorine manufacture is supplied by Chemplast's salt fields at Vedaranyam. The power-intensive electrolysis process of manufacturing chlorine is served by Chemplast's own gas-based power plant of 13 MW capacity in Karaikal and coal-based power plant of 48.5 MW in Mettur. The plant at cuddalore is owned by the wholly owned subsidiary CCVL and has a capacity of 300 Ktpa.

Mr. Vijay Sankar is the Chairman, and Mr. Ramkumar Shankar is the Managing Director of CSL. Mr. Chandran Ratnaswami, Dr. Amarnath Ananthanarayanan, Dr. Lakshmi Vijayakumar, Mr. Aditya Jain, Mr. Sanjay Vijay Bhandarkar and Mr. Prasad Raghava Menon are other directors.

Sanmar Group's chemical businesses are under SHL Chemicals Group, i.e., Chemplast Sanmar Ltd, Chemplast Cuddalore Vinyls Ltd and TCI Sanmar Chemicals SAE. Sanmar Engineering Services Ltd is one of the holding companies of the group. FIH Mauritius Investments Limited (owned by Fairfax) has a 43% shareholding in SESL. SESL undertakes comprehensive maintenance contracts for Sanmar-manufactured products, accessories and equipment through a country-wide network of service and repair centres, as well as plant-site operations.

Key Financial Indicators - Consolidated

Key Parameters	Units	31 Mar 2020	31 Mar 2021*
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. Crs	1259.31	3798.73
EBITDA	Rs. Crs	319.77	961.47
PAT	Rs. Crs	98.74	410.08
Tangible Net worth	Rs. Crs	910.23	(349.49)
Total Debt	Rs Crs	1288.68	2124.23
Total Debt/Tangible Net worth	Times	1.42	Negative
Current ratio	Times	1.03	0.64

*Consolidated figures including CCVL which became a wholly owned subsidiary of the CSL wef 31 March 2021.

Note: The company achieved revenue of Rs.4085.04 Crs with a PAT of Rs.417.02 Crs during 9MFY22, as per the published unaudited financial results.

Key Financial Indicators - Standalone

Key Parameters	Units	31 Mar 2020	31 Mar 2021
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. Crs	1259.31	1288.74
EBITDA	Rs. Crs	319.77	402.24
PAT	Rs. Crs	98.74	43.63
Tangible Net worth	Rs. Crs	910.23	976.23
Total Debt	Rs Crs	1288.68	1211.72
Total Debt/Tangible Net worth	Times	1.42	1.24
Current ratio	Times	1.03	1.16

Note: The company achieved a standalone revenue of Rs.1363.51 Crs with a PAT of Rs.231.36 Crs during 9MFY22, as per the published unaudited financial results.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities

Status of non-cooperation with previous CRA: NA

Rating history for the previous three years [including withdrawal and suspended]

a) NCDs

Sl.No.	Instruments	Current Rating (Feb 2022)			Rating History^		
		Type	Amount (Rs Crs)	Rating	2021	2020	2019
1	NCDs	Long Term	**1238.25**	**Withdrawn**	<u>**05 Aug 2021**</u> BWR A/Stable	<u>**17 Feb 2020**</u> BWR A/Stable <u>**19 May 2020**</u> BWR A/Stable <u>**31 Jul 2020**</u> BWR A/Negative	-
	Total		**1238.25***	**Rupees One Thousand Two Hundred and Thirty Eight Crores and Twenty Five Lakhs Only**			

*Fully redeemed on 31 Aug 2021

^Press Release in the form of *Credit Update was published on 30 Jun 2020 & 13 Nov 2020*

b) Bank Loan Facilities

Sl. No	Facility	Current Rating (Feb 2022)			Rating History^		
		Type	Amount (Rs Crs)	Rating	2021 05 Aug 2021	2020	2019
	FB (Sublimit of NFB)						
1	WCDL	Long Term	(60.00)	**BWR A+/ Positive**	BWR A/ Stable	**17 Feb 2020*** BWR A/Stable/A1 **19 May 2020*** BWR A/Stable/A1 **31 Jul 2020*** BWR A/Stable/A1	**27 Aug 2019**** BWR A/Stable/A1 **12 Jun 2019***** BWR AA-/A1+ Credit Watch with Developing Implications **07 Jan 2019***** BWR AA-/Stable/A1+
2	Cash Credit		(26.00)				
3	Packing Credit		(60.00)				
	NFB						
4	LC/BG/ SBLC- Sanct.	Short Term	160.00	**BWR A1+**	BWR A1		
5	LC/BG/ SBLC- Prop		540.00				
	Total		**700.00**	**Rupees Seven Hundred Crore Only**			

^Initial ratings of BWR AA-/Stable/A1+ were assigned to the bank loan facilities of Rs.1656.50 Crs on 24 Jul 2018; Press Release in the form of *Credit Update was published on 30 Jun 2020 & 13 Nov 2020*

*Rated amount - Rs. 200 Crs; **Rated amount-Rs. 1749 Crs; ***Rated amount-Rs. 1741.50 Crs

Complexity Levels of the Instruments: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

General Criteria

Manufacturing Companies

Consolidation of Companies

Approach to Financial Ratios

Short Term Debt

Analytical Contacts	
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Chemplast Sanmar Limited

Annexure I- Instrument Details

Instrument	Issue Date	Amount (Rs Crs)	Coupon (% p.a.)	Maturity Date	ISIN
NCD Trache I	20-Dec-2019	550.88	17.50%	20-Dec-2026	INE488A07073
NCD Tranche III	20-Dec-2019	214.50	17.50%	20-Dec-2026	
NCD Tranche II	20-Dec-2019	472.87	17.50%	20-Dec-2026	INE488A07065
Total		**1238.25***	**Rupees One Thousand Two Hundred and Thirty Eight Crores and Twenty Five Lakhs Only**		

*Fully redeemed on 31 Aug 2021

Annexure II : Details of the bank loan facilities rated (Rs. Crs)

Sl No	Name of the Bank	Name of Facilities	Long Term* (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	CTBC Bank	LC/BG/SBLC (Sublimits-CC/WCDL)	WCDL-(50.00) CC/OD-(1.00)	50.00	50.00
2	Indian Overseas Bank	LC/BG/SBLC (Sublimit-CC)	CC/OD-(20.00)	50.00	50.00
3	DBS Bank India Ltd	LC(Sublimits-PC/WCDL/ CC/BG)	PC-(60.00) WCDL-(10.00) CC/OD-(5.00)	60.00	60.00
3	Proposed	LC/BG/ SBLC	-	540.00	540.00
	Total		**-**	**700.00**	**700.00**

*Fund based limits are sub-limits of Non-fund based LC facilities.

Annexure III: List of Entities Consolidated

Sl No	Name	Holding(%)	Extent of consolidation	Subsidiaries/JV
1	Chemplast Cuddalore Vinyls Ltd	100	Full	Subsidiary

For print and digital media : The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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Rating Rationale **24 February 2022**

Chemplast Cuddalore Vinyls Limited

Brickwork Ratings upgrades the ratings with a revision in the outlook for the enhanced Bank Loan Facilities of Rs 2550.00 Crores of Chemplast Cuddalore Vinyls Limited

Particulars:

Facility	Amount (Rs Crs)		Tenure	Ratings*	
	Previous	Present		Previous (24 May 2021)	Present
Fund based Term Loan	840.00	**800.00**	Long Term	BWR A-/Stable	**BWR A+/Positive**
Cash Credit	-	**5.00**		Reaffirmed with Revision of Outlook to Stable	**Upgraded with Revision of Outlook to Positive**
Non-Fund Based ^ LC/BG/SBLC	925.00	**1445.00**	Short Term	BWR A2+ Reaffirmed	**BWR A1+ Upgraded**
Proposed BG/LC/SBLC	575.00	**300.00**			
Total	2340.00	**2550.00**	**Rupees Two Thousand Five Hundred and Fifty Crores only**		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings; ^NFB facilities Includes Rs. 50 Crs CC/OD/WCDL limits as sub-limits; Details of bank facilities are provided in Annexure-I

Rating Action/Outlook

The upgradation of the ratings of Chemplast Cuddalore Vinyls Limited (CCVL or the company) reflects the sustained improvement in the company's business profile, supported by its improved performance during FY21 and a better year-to-date performance in 9MFY22 along with an improvement in the liquidity position. CCVL booked revenue of ~Rs. 2511 Crs in FY21, as against ~Rs.1878 Crs achieved during FY20, registering YoY growth of ~34%. The operating income of ~Rs.2723 Crs achieved during 9MFY22 has already surpassed the full-year figure for FY21, while registering YoY growth of ~72%. Profitability has also recorded significant growth in FY21 and so far during FY22, backed by the highest ever contribution margins of CCVL's product Suspension Poly Vinyl Chloride (SPVC). The liquidity position has improved substantially in FY21 and 9MFY22 due to higher profitability, as marked by the adequate cash and cash equivalents level of over Rs.563 Crs as on 31 December 2021 as against ~Rs.502 Crs as on 31 March 2021.

Brickwork Ratings (BWR) positively notes the support from parent company Chemplast Sanmar

Limited (CSL) [rated BWR A+/Positive/A1+]. CCVL became a wholly-owned subsidiary of CSL w.e.f. 31 March 2021 and the SPVC business contributes ~65% of CSL's revenue at the consolidated level. CSL had an investment of ~Rs. 1556 Crs in CCVL as on 31 March 2021.

The ratings of CCVL continue to factor in the reputation of Sanmar Group, experienced and professional management, established track record, along with the company's dominant market position in the chemicals industry, locational advantages and significant growth potential. The ratings are constrained by the company's eroded net worth, post the Scheme of Arrangement (Scheme) in SHL Chemicals Group, impacting leverage, working-capital-intensive operations and vulnerability to fluctuations in the prices of key raw materials.

The revision in outlook on CCVL factors in the Positive outlook for the SPVC industry in India, coupled with significant growth opportunities for domestic players in the medium term. CCVL is now the second-largest Suspension PVC manufacturer in India and is expected to benefit from its leadership position due to favourable demand-supply dynamics. BWR also notes the company's plans to capitalise on these opportunities by way of capacity addition through debottlenecking.

The rating outlook may be revised downwards in the case of a deterioration in the operating performance, additional debt raising for capex or other needs, or an unexpected stretch in the working capital cycle, thereby adversely affecting the company's debt metrics and credit risk profile.

Key rating drivers

Credit Strengths-:

- **Reputed Sanmar Group and experienced management:** Started in 1962, the Chennai-based Sanmar group has global partnerships in a range of industry segments. The group is reported to be one of the large South Indian conglomerates having revenues of more than USD 1 billion and an asset base of more than USD 2 billion, in all its businesses such as chemicals, engineering technologies and shipping. The group is fourth-generation-family-owned and professionally managed. The group has operations in the US, Mexico and Egypt, apart from its significant presence in the southern part of India. The senior management team has been associated with the group for over two decades.
- **Improved operational performance**: SPVC's operations are a large-volume, moderate-margin business. The financial performance of CCVL is marked by stable earnings and profitability margins. CCVL booked revenue of ~Rs. 2511 Crs in FY21, as against ~Rs.1878 Crs achieved during FY20, registering YoY growth of ~34%. The operating income of ~Rs.2723 Crs (PY: ~Rs.1582 Crs) for 9MFY22, on a provisional basis, has already surpassed the full-year figure for FY21. With the improved average contribution/MT, the profitability margins have improved significantly, and margins were stable and strong during FY21 and 9MFY22. The EBITDA and PAT for FY21 were ~Rs.614 Crs and ~Rs.267 Crs, respectively, against an EBITDA of ~Rs.143 Crs and a net loss of ~Rs.98 Crs booked in FY20. The EBITDA and PAT for 9MFY22 were ~Rs.453 Crs and

~Rs.186 Crs, respectively, on a provisional basis. The debt protection metrics remained adequate, as reflected by an ISCR of 3.42 times and a DSCR of 2.42 times during FY21.

- **Growth potential of SPVC business -** The SPVC business possesses significant growth potential. Currently, more than 50% of India's SPVC demand is being imported. Demand is expected to grow mainly on account of growth in the end-user industries such as agriculture, infrastructure and real estate sector, backed by various government initiatives for promoting irrigation/water supply and the implementation of the National Infrastructure Pipeline and affordable housing scheme. Even assuming modest demand growth of 10%, India will continue to be a deficit market. On the other hand, there is no fresh capacity addition on the supply side by way of new entrants or capacity expansion by existing PVC players. The phasing out of plants in China and import restrictions are expected to positively impact the domestic PVC manufacturers in India. CCVL is now reported to be the second largest suspension PVC manufacturer in India, next to Reliance Industries Ltd. CCVL has sufficient land, utilities, marine terminal facility and other infrastructure for future expansions. To tap growing demand, in the initial phase, the company is in the process of debottlenecking the suspension PVC capacity by 31 Kilo tonne per annum (Ktpa) in the next few months at a CAPEX of around Rs.23.50 Crs.
- **Locational advantages and long-standing relations with the main supplier -** The strategically selected location of Southern and Eastern markets helps in low operating costs, freight costs, energy costs and labour costs. CCVL has developed a long-standing relation with Mitsubishi, the main supplier of key raw material Vinyl Chloride Monomer (VCM), to ensure continuity in supply. The tie-up of feedstock VCM is critical in this business as it is not manufactured in India and can only be imported. Although CCVL has direct relations with all large global manufacturers of key feedstock materials, it imports VCM through Mitsubishi, the largest trader of such materials globally. This ensures continuous supply of raw materials even if there are temporary shutdowns in some VCM plants due to maintenance or other reasons. Mitsubishi is able to procure the raw material from different sources and ensures supplies with no disruptions. VCM can only be transported in specialised cargo ships at sub-zero temperatures, and Mitsubishi handles the logistics. CCVL has strategically installed its own marine terminal facility, where tankers can berth, and VCM is transported to the plant via underwater/ground pipelines, thus enabling the efficient and safe handling of VCM imports.
- **Parent support:** CCVL became a wholly-owned subsidiary of Chemplast Sanmar Ltd w.e.f. 31 March 2021. SPVC business contributes ~65% of CSL's revenue at the consolidated level, and there are strong operating, financial, legal and strategic linkages between CSL and CCVL. Currently, CSL has an investment of ~Rs. 1556 Crs in CCVL, and the parent has demonstrated its ability to continue to support the operations of CCVL through. CSL, a listed entity, is rated BWR A+/Positive/A1+ and is one of the leading players in the specialty paste PVC industry with consolidated revenue of ~Rs.4000 Crs and an EBITDA of ~Rs.850 Crs in 9MFY22. The company at a standalone level is debt-free and has a strong capital

structure and liquidity, which offers additional comfort to CCVL as and when may be required.

Credit Concerns-:

- **Leveraged capital structure due to the scheme -** CCVL's tangible net worth turned negative post the Scheme in SHL Chemicals Group in FY19. The TNW further declined to Rs. (1285.90) Crs as on 31 March 2021 against Rs. (371.85) Crs as on 31 March 2020, on account of the retirement of debentures issued to Sanmar Engineering Services Ltd (SESL) in March 2021 by redeeming the investments of Rs. 1200 Crs by CCVL in Sanmar Group International Ltd (SGIL). The negative TNW of CCVL is not due to any business or cash loss, but purely on account of the accounting treatment and did not have any cash impact on the business. A fresh term loan of Rs 825 Crs was availed to repay the debt of the holding company, resulting in a significant increase in the company's debt level. In view of the fully eroded net worth, leverage ratios are not meaningful (negative). However, the company is in a comfortable position to meet its financial commitments.
- **Susceptibility of margins to price volatility of key raw materials and forex fluctuations -** The key raw material VCM is not manufactured in India and can only be imported. CCVL has developed a long-standing relation with Mitsubishi, the main supplier of VCM, which ensures continuity in supply. Although the volatility in the PVC-VCM spread impacts the company's EBITDA margins, the company, using a combination of measures, has been able to maintain the PVC-VCM spread profitably. Profitability is exposed to forex fluctuations as the key raw materials are imported. However, forex risk is managed through the hedging policy of covering all the large-value forex exposures.
- **Inherent risks associated with the chemical industry** - The company is exposed to the inherent risks associated with the chemical industry, including government regulations and unexpected disruptions in operations. Like any other company in the chemical industry, CCVL is susceptible to stringent regulations regarding environmental pollution and handling of hazardous substances, among others. As with most chemical plants, the company is exposed to operational risks pertaining to unexpected operational disruptions in manufacturing plants, including the unavailability of key raw materials. However, with its vast experience in this industry and with the employment of preventive maintenance practises, the company is well-positioned to manage its operational risks. The Covid-19 impact on the company's operations during the second and third waves were reported to be minimal, though temporary supply chain disruptions and demand dip in the end-user industries were felt during Q1FY22, due to lockdowns in some parts of the country. The company's operations have fully recovered since Q2FY22 and are full-fledged, as of date.

Analytical approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). BWR has factored in the strong operating, financial, legal and strategic linkages between CSL and CCVL and the common management team for these entities and the demonstrated parent support in the form of investments and corporate guarantee.

Rating sensitivities:
The company's ability to ensure the efficient utilisation of the installed capacities, sustain and improve its operational and financial performance, strengthen its overall credit profile and manage its working capital efficiently would remain key rating sensitivities. The timely completion of the planned capacity debottlenecking will be a key monitorable. Any rating revision of the parent, CSL, could result in a similar action on the rating of CCVL.

Positive
- Sustained improvement in revenue and profitability margins
- Reduction in debt levels, improvement in capital structure and overall strengthening of financial risk profile

Negative
- Significant debt-funded capex and/or significant deterioration in the EBITDA margins
- Specific credit metrics that may result in a rating downgrade, including the DSCR and ISCR declining to below unity on a sustained basis.
- Any downward rating action on CSL and/or a change in the present support arrangement from CSL.

Liquidity - Strong: The company utilises its non-fund-based facilities to import raw materials. The liquidity position has improved substantially in FY21 and 9MFY22 due to higher profitability, which is likely to continue during Q4FY22. The EBITDA of ~Rs.614 Crs and ~Rs.453 Crs for FY21 and 9MFY22, respectively, comfortably covers the interest and finance charges of ~Rs.180 Crs and ~Rs.153 Crs, respectively, for the same period. CCVL had adequate cash and cash equivalents of over Rs. 563 Crs as on 31 December 2021 (Rs. 502.07 Crs as on 31 March 2021), of which ~Rs.257 Crs were unencumbered deposits and ~Rs.63 Crs was the current account balance. The current ratio improved to 0.47 times as on 31 March 2021 against 0.20 times as on 31 March 2020. The ratio remains low mainly because of low receivables and high payables. The company receives its collections from customers within a short period of time. It also gets a significant credit extension from its overseas supplier, on account of the long-standing relation, resulting in high trade payable days. The company is in a comfortable position to meet its financial commitments in the next 2 – 3 years.

About the company
Incorporated in 1991, Chemplast Cuddalore Vinyls Limited (CCVL) belongs to Chennai-based Sanmar Group, engaged in the businesses of chemicals (including speciality chemicals), engineering technologies (products and steel castings) and shipping. Chemplast Sanmar Limited (CSL) owns CCVL. CCVL is a leading manufacturer, presently the second largest by capacity, of SPVC, and the manufacturing plant is located at Cuddalore, with a capacity of 300 Ktpa.

Mr. Ramkumar Shankar is the Managing Director of CCVL. Dr. Amarnath Ananthanarayanan, Dr. Lakshmi Vijayakumar and Mr. Aditya Jain are other directors.

Sanmar Group's chemical businesses are under SHL Chemicals Group, i.e. Chemplast Sanmar Ltd, Chemplast Cuddalore Vinyls Ltd and TCI Sanmar Chemicals SAE. Sanmar Engineering Services Ltd is one of the holding companies of the group. FIH Mauritius Investments Limited (owned by Fairfax) has a 43% shareholding in SESL. SESL undertakes comprehensive maintenance contracts for Sanmar-manufactured products, accessories and equipment through a country-wide network of service and repair centres, as well as through plant-site operations.

Key Financial Indicators

Parameters	Units	31 Mar 2020	31 Mar 2021
		Audited	Audited
Total Operating Income	Rs. Crs	1878.95	2510.74
EBITDA	Rs. Crs	143.06	614.06
PAT	Rs. Crs	(97.65)	266.65
Tangible Net worth	Rs. Crs	(371.85)	(1285.90)
Total Debt	Rs. Crs	951.45	898.51
Total Debt/Tangible Net worth	Times	Negative	Negative
Current ratio	Times	0.20	0.47

Note : The company achieved a revenue of ~Rs.2723 Crs with a PAT of ~Rs.186 Crs for 9MFY22, on a provisional basis

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating history for the previous three years [including withdrawal and suspended] :

Facility	Current Rating (Feb 2022)			Rating History		
	Amount (Rs Crs)	Tenure	Rating	2021 24 May 2021	2020 19 May 2020	2019 27 Aug 2019
Fund based Term Loan Cash Credit	800.00 5.00	Long Term	**BWR A+/ Positive**	BWR A-/ Stable	BWR A-/ Negative	BWR A - / Stable
Non-Fund Based^ LC/BG/SBLC Proposed BG/LC/SBLC	1445.00 300.00	Short Term	**BWR A1+**	BWR A2+	BWR A2+	BWR A2+
Total	**2550.00**	**Rupees Two Thousand Five Hundred and Fifty Crores only**				

^NFB facilities Includes Rs. 50 Crs CC/OD/WCDL limits as sub-limits

Complexity Levels of the Instruments: Simple
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Manufacturing Companies
- Rating based on Parent Support
- Approach to Financial Ratios
- Short Term Debt

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Chemplast Cuddalore Vinyls Limited

Annexure I: Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Yes Bank	LC/BG/SBLC	-	540.00	540.00
		CC/OD/WCDL*	(15.00)	-	(15.00)
2	IndusInd Bank	Term Loan	526.00	-	526.00
		LC/BG/SBLC	-	200.00	200.00
3	IDFC First Bank	LC/BG/SBLC	-	225.00	225.00
		CC/OD/WCDL*	(30.00)	-	(30.00)
4	Indian Overseas Bank	LC/BG/SBLC	-	110.00	110.00
		CC/OD/WCDL*	(5.00)	-	(5.00)
5	NIIF IFL	Term Loan	274.00	-	274.00
6	JP Morgan Chase Bank	LC/BG/SBLC	-	225.00	225.00
		CC/OD/WCDL*	(7.00)	-	(7.00)
7	ICICI Bank	LC/BG/SBLC	-	145.00	145.00
		CC/OD/WCDL	5.00	-	5.00
8	Proposed	LC/BG/SBLC	-	300.00	300.00
Total- Rupees Two Thousand Five Hundred and Fifty Crores only					**2550.00**

*Sub-limits of non-fund based LC facilities

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